



CHARTERED INSTITUTE OF BANKERS, GHANA

ASSOCIATESHIP EXAMINATION

LEVEL II

THE MONETARY AND FINANCIAL SYSTEM

APRIL 2023

N.B:

1. Read carefully the instructions on the cover of the answer book.
2. Answer a total of **FIVE (5)** questions.
3. Each question carries **20** marks. Where questions are subdivided, the marks for the subdivisions are shown in brackets.
4. Answers in listed note form are acceptable provided they are logically and clearly presented and the points made are adequately developed.
5. No aids such as calculators, books, dictionaries, papers or mathematical sets are permitted in this examination.
6. Time allowed: **THREE HOURS.**
7. The total number of questions in this paper is **EIGHT (8).**
8. Candidates must ensure that they answer question in the appropriate answer book and **NOT on loose sheets** which are used only as supplementary sheets. Such answers will not be marked.
- 9. DO NOT WRITE YOUR NAME ON THE ANSWER BOOK.**
- 10. DO NOT OPEN THIS QUESTION PAPER UNTIL INSTRUCTED TO DO SO.**

ANSWER ANY FIVE QUESTIONS

QUESTION ONE

Assume you are the economic and financial consultant of the newly established Abrewa Ventures Ltd which was formed with the owners' own resources. At its 3rd General Meeting, the shareholders approved plans for the medium-term growth of the company but concerns were raised about how to finance it. Upon advice, the owners decided not to use bank loans or any form of credit for the anticipated growth. Identify and explain the four methods of corporate equity finance that would be appropriate to meet the funding needs of the company.

[20 Marks]

QUESTION TWO

The general Ghanaian public has expressed concern about investing in the economy following the recent turmoil in the bond market, as a result of Government's Domestic Debt Exchange Programme. Explain the major financial risks that the personal sector may experience in the Ghanaian economy.

[20 Marks]

QUESTION THREE

Explain how financial intermediation benefits the lender, the borrower and the society.

[20 Marks]

QUESTION FOUR

- a) What is capital adequacy? [3 Marks]
- b) Under Bank of Ghana rules how is capital adequacy managed by a bank, including a bank that has a subsidiary. [17 Marks]

[Total: 20 Marks]

QUESTION FIVE

- a) Explain how a company may use interest rate swap as a means of managing exchange rate risk. [9 Marks]
- b) List **four** reasons why leasing serves as a popular source of finance for the corporate sector. [4 Marks]
- c) List and define each of the intermediate target variables of economic policy. [5 Marks]
- d) What is redemption yield? [2 Marks]

[Total Marks: 20]

QUESTION SIX

Write short notes on the following:

- a) Factors that influence changes in nominal rates of interest. **[10 Marks]**
 - b) The conventional objectives of macroeconomic policy. **[10 Marks]**
- [Total Marks: 20]**

QUESTION SEVEN

- a) List the six main items of the capital account on Ghana's balance of payments. **[6 Marks]**
- b) State the basic assumptions of the PPP (Purchasing Power Parity) theory. **[4 Marks]**
- c) How is the equilibrium exchange rate between currencies, as claimed by PPP (Purchasing Power Parity) theory, explained? **[10 Marks]**

[Total Marks: 20]

QUESTION EIGHT

With reference to PSBR (Public Sector Borrowing Requirement) and its effect on money supply, the source of financing it may not be more relevant than the medium of borrowing that underlies it. Discuss.

[20 Marks]